WEST GERMANY

Economic Relationship with the United States

The United States has been a key trading partner for West Germany throughout the post-war period. Although its relative importance has declined somewhat over the years, in 1981 the United States was still the sixth-largest export market (with $11.5 billion or 6.5 percent of total exports) and the third largest source of imports (with $12.6 billion or 7.7 percent of total imports). Exports to the US market are dominated by manufactured goods, which account for 92 percent of the total. The two sub-categories that stand out are machinery and transport equipment (essentially motor vehicles), with shares of about 30 and 35 percent respectively. Imports from the United States are more diversified: machinery accounts for about 30 percent of the total, other manufactures about 25 percent, and foodstuffs about 20 percent. (U)

In other categories of economic relations the relative importance of the United States is significantly greater. The United States provides more than one-fifth of West Germany's total earnings from services and receives about 11 percent of West German expenditures. West Germany's large services surplus more than offsets its trade deficit with the United States. A sub-category where the United States particularly stands out is fees for licenses and patents. Payments to the United States of $1.2 billion in 1980 accounted for 45 percent of total West German expenditures in the category. At the same time, West Germany received fees from the United States of $260 million, about one-quarter of its world total. (U)

In terms of direct investment, the United States has been West Germany's key partner throughout the post-war period. Of the total stock of foreign direct investment in West Germany, the United States owns about one-third (about the same share owned by all the EC countries combined). The flow has slowed recently, however, and in 1981 the United States fell to fourth place in terms of new investment entering the Federal Republic. As for West German direct investment abroad, the United States again is the dominant partner with close to one-fifth of the total, and it has been gaining in importance. For 1981 alone the United States received 35 percent of the new investment outflow, exceeding the share going to other EC countries. (U)

Ties with the Soviet Bloc

In terms of foreign trade, the East Bloc as a whole rivals the United States in importance for West Germany, accounting for 6 to 7 percent of the total. The USSR is the leading partner, accounting for about 2 percent of West German exports and imports, followed by East Germany. (Officially of course West Germany still treats exchanges with East Germany as a special category of internal trade). The Soviet and Bloc shares of West German trade have receded from their mid-seventies peak as Communist countries have had difficulty acquiring hard currency to pay for imports. West German exports to the Bloc are dominated by machinery and steel (particularly steel pipe for the USSR). Energy stands out on the import side — especially natural gas from the USSR, which now accounts for one-fifth of total gas imports. (U)

In other economic relationships, the Bloc drops sharply in importance, although West Germany does have substantial loans outstanding to Eastern Europe. Services income from the Bloc is only one-sixth that from the United

States while services expenditures are one-fifth of service purchases from to the United States. Payments for license and patent fees equal only one percent of payments to the United States. Direct investment is negligible in both directions. (U)

Reaction to US Trade Measures

The sanctions extension dwarfs the steel decision in West German eyes. There has always been a strong feeling in business and government circles that sanctions would hurt Western Europe more than the USSR. Chancellor Schmidt, moreover, appears deeply offended by the way the decision was handled. The economic loss to the West German economy is not huge — the turbine contract was for $250 million and involves perhaps 2000 jobs. However it is an added blow for the turbine manufacturer (AEG-Kanis), whose parent company (AEG Telefunken) is effectively bankrupt and cannot survive in its present form. The parent firm's plight has been widely publicized for months, so Washington probably would get only a small portion of the blame if it goes under. (C NF)

The West Germans have mixed views about the steel decision. Economic minister Lambsdorff expressed regret, but at the same time West German officials realize that the US United States findings support their own complaints about steel subsidies in other EC countries. Only two West German companies were found to receive subsidies exceeding one percent of the sales price. The two companies are relatively small — West Germany's fifth and seventh largest — and their subsidies were estimated at only 4 and 9 percent respectively. By contrast the major steel producers in France, Italy, Britain, and Belgium were all found to be getting much larger subsidies (up to 40 percent). (C NF)

The West Germans were greatly relieved at the finding that their coking coal subsidy did not constitute a steel subsidy. (West German steel firms are required to use high-cost domestic coke, and the subsidy only offsets this extra expense.) This was the key issue in their eyes, and an adverse finding likely would have led to some form of trade retaliation. (C NF)